

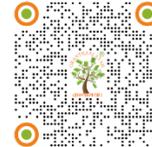
Original Article

## THE EFFECT OF FINANCIAL LITERACY AND FINANCIAL INCLUSION ON THE FINANCIAL PERFORMANCE OF MSMEs IN TOMOHON CITY AND MINAHASA REGENCY

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### ABSTRACT

This study aims to analyze the effect of financial literacy and financial inclusion on the financial performance of Micro, Small, and Medium Enterprises (MSMEs) in Tomohon City and Minahasa Regency. The research employed a quantitative approach using multiple linear regression analysis. The sample consisted of MSME owners operating in these regions. The results indicate that: (1) financial literacy has a positive and significant effect on the financial performance of MSMEs; (2) financial inclusion has a positive and significant effect on financial performance; and (3) both variables simultaneously influence MSME financial performance significantly. The findings highlight the importance of improving financial education and expanding access to formal financial services to strengthen MSME performance.

**Keywords:** Financial Literacy, Financial Inclusion, Financial Performance, MSMEs

### INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in Indonesia's economic development, including in Tomohon City and Minahasa Regency. MSMEs contribute significantly to job creation, poverty reduction, and regional economic growth. However, in facing increasing competition and market dynamics, MSME owners must possess adequate financial management capabilities. One key factor influencing successful business management is financial literacy, which involves the ability to understand financial concepts, manage cash flow, budget, record transactions, and make sound financial decisions. Low financial literacy often leads to weak financial planning, limited access to credit, and poor business sustainability.

Another important factor is financial inclusion, referring to the availability and accessibility of formal financial services such as banking, credit, digital payments, and financing institutions. Adequate access to financial services enables MSMEs to conduct efficient transactions, access capital, and support business growth.

This study analyzes:

- 1) the effect of financial literacy on MSME financial performance.
- 2) the effect of financial inclusion on financial performance; and
- 3) the simultaneous effect of both variables on MSME financial performance in Tomohon City and Minahasa Regency.

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**LITERATURE REVIEW**  
**FINANCIAL LITERACY**

Financial literacy refers to an individual’s ability to understand financial concepts and make effective financial decisions. Key indicators include basic financial knowledge, money management, budgeting, savings, and investment understanding.

**FINANCIAL INCLUSION**

Financial inclusion is defined as the ease of access, availability, and use of formal financial services. This includes access to banking, credit facilities, digital payment systems, and financial products that support business activities.

**MSME FINANCIAL PERFORMANCE**

Financial performance of MSMEs can be measured by revenue growth, profitability, liquidity, cash flow management, and the ability to meet financial obligations.

**CONCEPTUAL FRAMEWORK**

Financial Literacy (X1) and Financial Inclusion (X2) are hypothesized to influence Financial Performance (Y).

**HYPOTHESES**

- H1:** Financial literacy has a positive effect on MSME financial performance.
- H2:** Financial inclusion has a positive effect on MSME financial performance.
- H3:** Financial literacy and financial inclusion simultaneously have a significant effect on MSME financial performance.

**RESEARCH METHOD**

This study employs a quantitative research method. The population consists of MSME owners in Tomohon City and Minahasa Regency. A purposive sampling technique was used to obtain relevant respondents.

Data were collected using questionnaires measured with a Likert scale. The data analysis includes validity testing, reliability testing, classical assumption tests, multiple linear regression, t-test, F-test, and the coefficient of determination (R<sup>2</sup>).

Regression model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

**RESULTS AND DISCUSSION**

**RESULTS**

**VALIDITY AND RELIABILITY TESTS**

All questionnaire items were valid (corrected item-total correlation > 0.30) and reliable (Cronbach’s Alpha > 0.70).

Multiple Linear Regression Results

Variable	Coefficient	t-value	Sig.
Financial Literacy	0.428	5.612	0.000
Financial Inclusion	0.371	4.983	0.000
Constant	5.214	3.119	0.002
Regression equation: $Y = 5,214 + 0,428X_1 + 0,371X_2$			

**F-TEST (SIMULTANEOUS TEST)**

F-value=63.118,

Sig.=0.000

→ Financial literacy and financial inclusion jointly have a significant effect.

## COEFFICIENT OF DETERMINATION ( $R^2$ )

$R^2=0.654$

This means that 65.4% of the variation in MSME financial performance is explained by the two independent variables.

## DISCUSSION

### EFFECT OF FINANCIAL LITERACY ON FINANCIAL PERFORMANCE

The analysis shows that financial literacy significantly enhances MSME financial performance. MSME owners with better financial knowledge tend to manage their finances more effectively, resulting in improved profitability and stability.

### EFFECT OF FINANCIAL INCLUSION ON FINANCIAL PERFORMANCE

Financial inclusion also positively affects financial performance. Access to formal financial services supports efficient business operations, eases transactions, and provides greater financing opportunities.

### SIMULTANEOUS EFFECT

Both financial literacy and financial inclusion collectively contribute significantly to the financial performance of MSMEs, demonstrating the complementary nature of knowledge and access to financial systems.

## CONCLUSION

- 1) Financial literacy has a positive and significant impact on MSME financial performance.
- 2) Financial inclusion has a positive and significant impact on financial performance.
- 3) Both variables significantly influence financial performance when analyzed simultaneously.

## RECOMMENDATIONS

- MSME owners should continually improve their financial knowledge through training programs and workshops.
- Local governments and financial institutions should enhance financial education initiatives and expand financial service access.
- Future research may include additional variables such as digitalization, business experience, or capital structure.

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